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Order 2001-7-1

Served: July 6, 2001



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 6th day of July, 2001

INTRA-ALASKA MAINLINE

SERVICE MAIL RATES

Docket OST-95-429 - 148

(Docket 38961)

**ORDER TO SHOW CAUSE ESTABLISHING
MAINLINE SERVICE MAIL RATES**

Summary

By this order the Department proposes to establish new intra-Alaska mainline mail rates for the year ending September 30, 2002. The rates that are currently in effect were established by Orders 2000-11-9, which finalized the weighting of costs by amount of mail carried on each aircraft type, and Order 2001-4-12, Petition for Reconsideration, which corrected Order 2000-11-9 for revisions in Lynden Air Cargo's data, and Order 2001-6-10, the most recent quarterly fuel update. Those rates, except for the quarterly fuel update, will remain in effect as final rates through September 30, 2001, or until a final order is issued with respect to the rates proposed here, whichever is later.

Background

The proposed final rates, contained in Appendix A, reflect the application of cost adjustment factors, developed in Appendix B, to the basic mail rate structure established by the Civil Aeronautics Board in Order 82-11-23. We have used the carriers' reported operating expenses for the YE 3/31/01, and have increased their unit costs to the mid-point of the new rate period, based on the long-term (ten-year) average annual changes in unit costs.

The proposed final rates differ from the final rates currently in effect by the amounts shown in the following table:

		Order 01-6-10	Proposed	
		<u>YE 9/30/01</u>	<u>YE 9/30/02</u>	<u>% Change</u> ¹
Linehaul Charge per Billing Ton-Mile: ²	Priority	\$1.9809	\$1.9873	.32%
	Non-Priority	\$1.1992	\$1.2031	.33%
Terminal Charge per Pound Originated:	Priority	\$.2612	\$.2565	-1.80%
	Non-Priority	\$.2244	\$.2203	-1.83%

The combination of the proposed linehaul and terminal charges produces proposed rates for the YE 9/30/02 that are 0.5 percent lower than those in effect for the current period for a 405-mile ³ average length of haul.

General Matters

In this order we are continuing to use the methodology first implemented in Order 98-7-3, i.e., calculation of a long-term moving average for changes in unit costs to project from the historical base period to the projected rate period, rather than the more volatile year-over-year changes in unit costs. The calculation of the long term moving average is shown in the regression in Appendix D. The results indicate that, on average over the last ten years, unit costs have increased annually by 2.67% for the non-fuel linehaul and 1.77% for the terminal element.

Also, we are continuing to use the methodology first implemented in Order 2001-11-9 of weighting carrier costs by amount of mail carried by aircraft type, and of estimating the long-term trend based on the costs of Alaska Airlines and Northern Air Cargo only, because we do not have the costs for the other carriers now in the rate for earlier periods. This year, unlike the preceding year, the weighting of carrier costs by amount of mail carried works to reduce the overall rate. ⁴

As shown in Appendix A, the projected linehaul rate is .32% higher and the terminal is 1.80% lower than the current rates. The small increase in the linehaul element is a result of NAC's and LAC's unit cost increases being offset by the addition for the first time of ACE's relatively low unit costs. The small decrease in the terminal charge is the combined result of a significant decrease in unit cost for NAC and ACE being offset by a significant increase for Alaska Airlines' unit costs. It is not clear what has caused the divergent changes in Alaska Airlines costs and that of the other two carriers, but it is worth noting that the carriers with decreased unit costs are both predominantly all-cargo operators while Alaska Airlines is a combi carrier.

¹ Difference in percentage change between priority and non-priority is due to rounding.

² The proposed linehaul rates above for the year ending 9/30/00 are the sum of YE 3/31/99 non-fuel linehaul expense, with an inflation factor applied, plus uninflated fuel expense.

³ RTMs of mail divided by tons enplaned of mail from Appendix C, Page 1 of 2.

⁴ Last year we added Tatonduk's terminal, but not their linehaul expenses, because we found them to be unreliable. Our Alaska inspector reviewed Tatonduk's expenses this year, and so Tatonduk's linehaul expense is now included. Because Tatonduk's expenses are weighted heavily because they carry a disproportionate amount of mail, and because their unit costs per ATM are lower than most, the weighting reduces the overall rate.

Future Considerations

We have fully added Alaska Cargo Express to the pool of carriers—in the last update, we included only their terminal expense, because we found their linehaul expenses to be unreliable, and now the carrier's costs have been inspected. We continue to include Lynden's linehaul expense, but not its terminal expense. The carrier operates a significant amount of service outside of Alaska that is not reflective of its Alaska service. The carrier indicates that it intends to construct internal reports, which will develop terminal costs on the basis of strategic business units so that in the next update we will be able to include LAC's terminal expenses. The only carriers now transporting a significant amount of mainline mail that are not in the mainline pool are ERA Aviation, Inc., and Alaska Central Express, Inc. ERA's data is not broken out between mainline and bush mail volumes, and including Alaska Central Express is even more problematic, because they operate primarily bush equipment. Whether or not to add these carriers to the cost pool would be problematic, and had been discussed in the last update. At this point, we will not add either to the cost pool.

ACCORDINGLY,

1. We direct all interested persons to show cause why the Department should not adopt the foregoing tentative findings and conclusions and fix, determine and publish the proposed final rates specified in Appendix A, for the period beginning either October 1, 2001, or on the date of issue of the final order pertaining to the rates proposed in Appendix A, whichever occurs later, through September 30, 2002, or until further order of the Department, whichever occurs later;
2. We direct all interested persons having objections to the tentative findings and conclusions or to the rates proposed here to file an objection along with all supporting documents within forty five (45) days after the date of service of this order. Vague or unsupported objections that do not include all proposed adjustments and backup data will not be accepted;
3. If no objection is filed within the designated time, or if a timely filed objection raises no material issue of fact, we will deem all further procedural steps waived. We then will enter a final order incorporating the tentative findings and conclusions set forth here and establishing the final rates specified in the attached Appendix A;
4. This docket shall remain open until further order of the Department; and

5. We will serve this order upon all parties on the Service List for this Docket.

By:

Susan McDermott
Deputy Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web
http://dms.dot.gov/reports/reports_aviation.asp*

INTRA-ALASKA MAINLINE CLASS SERVICE MAIL RATES

Effective: October 1, 2001, through September 30, 2002, or until further Department action, whichever comes later.

	Base Year	Adjustment	Proposed	Current Rates:	Change from
	<u>Rates 1/</u>	<u>Factors 2/</u>	<u>Final Rates 3/</u>	<u>Orders 01-4-12 and 01-6-10</u>	<u>Prior Rate</u>
Linehaul Charge per Billing Ton-Mile					
Priority	\$1.1969	66.04%	\$1.9873	\$1.9809	0.32% 4/
Non-priority	\$.7246	66.04%	\$1.2031	\$1.1992	0.33% 4/

Terminal Charge per Pound Originated

Priority	\$.1697	51.12%	\$.2565	\$.2612	-1.80% 4/
Non-priority	\$.1458	51.12%	\$.2203	\$.2244	-1.83% 4/

1/ Per Order 82-11-23

2/ See Appendix B

3/ Column (1) increase by Column (2).

4/ Differences due to rounding.

INTRA-ALASKA CLASS SERVICE MAIL RATES COST ADJUSTMENT FACTORS
(Expenses in Thousands of Dollars)

Unit Cost per Available Ton-Mile	Base Year		Average Annual Change		Midpoint to		Estimated		Percent	
	Ended	Year Ended	YE 3/31/91	YE 3/31/01 3/	Midpoint	Change 4/	Unit Cost at	Base Year to	Change 1980	Base Year to
	9/30/80 1/	3/31/01 2/					4/1/02 5/		4/1/02 6/	
Fuel			\$.227323 7/	Inflation Not Applicable to Fuel			\$.227323			
Nonfuel			\$.419027 8/		2.67%	4.04%	\$.435956			
Total			\$.399469				\$.663279			66.04%

Unit Cost per Ton Enplaned (App. C)	\$191.54	\$281.92 9/	1.77%	2.67%	\$289.45	51.12%
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1/ Per Order 82-11-23, updated most recently in Order 97-12-24.

2/ See Appendix C.

3/ See the regression results in Appendix D. As indicated in Order 97-9-37, we will rely on the most recent fuel costs, and apply no inflation factor to those costs. Also, these are trends for Alaska and NAC only, unweighted by mail carried.

4/ Reflects the fact that from the mid point of the reporting period to the midpoint of the prospective rate is 1 and 1/2 years.

1.0267 x 1.01335; where 1.01335 is the average annual unit cost increase projected for a 6-month period.

1.0177 x 1.00885; where 1.00885 is the average annual unit cost increase projected for a 6-month period.

5/ Fuel, most recent unit cost of \$.227323; Non-fuel linehaul \$.419027 x 1.0404; Terminal, \$281.92 x 1.0267.

6/ \$.663279 in preceding column divided by \$.399469 in the base period, and \$296.56 in the preceding column divided by \$191.54 in the base period.

7/ Fuel cost per weighted available ton-mile for QE 3/31/2001. See Appendix C, page 2 of 2.

8/ Weighted per Mail RTM for YE 3/31/2001. See Appendix C, page 1 of 2.

9/ Weighted per Mail Ton Enplaned for YE 3/31/2000. See Appendix C, page 1 of 2.

Operating Expenses, Alaska Airlines, Northern Air Cargo, Lynden Air Cargo, and Air Cargo Express
Intra-Alaska Class Service Mail Rates—Year Ended March 31, 2001

	Alaska Airlines (AS)				Northern Air Cargo (NAC)		Lynden (LAC)		Tatounduk (ACE)		Total
	#621.B-737-2C	#617.737-400	#612.737-700	#655.MD-80	#711.B-727	#216.DC-6	#556.Hercules	#150.C-46	#218.DC-6		
	LINEHAUL COSTS										
Dom. N-Fuel	\$49,471,693	\$261,783,171	\$55,092,604	\$234,894,781	\$6,626,225	\$10,224,386	\$28,831,980	\$447,194	\$5,345,729	\$646,924,840 1/	
Intra-AK Skd. B.Hrs.	17,667	9,424	1,117	1,436	1,845	7,171	1,748	614	6,668	40,408 1/	
Domestic Total	23,060	157,490	48,063	133,323	2,009	8,046	9,930	678	7,525	381,921 1/	
Intra-AK N-Fuel	\$37,901,839	\$15,664,770	\$1,280,370	\$2,530,013	\$6,085,309	\$9,112,487	\$5,075,358	\$404,981	\$4,736,920	\$77,650,146 1/	
Intra-AK Skd. ATMs	83,994,073	46,431,559	4,681,682	6,686,227	12,365,928	18,400,106	10,661,363	518,946	15,411,484	183,220,938 1/	
\$/ATM, N-Fuel	\$,451244	\$,337373	\$,273485	\$,378392	\$,492103	\$,495241	\$,476052	\$,780391	\$,307363	\$,423806 1/	
Intra-AK Mail RTMs	6,156,402	1,068,737	79,796	167,661	2,618,667	4,227,281	3,696,923	245,583	8,099,262	26,360,332	
RTM % of Total	23.35 %	4.05 %	0.30 %	0.64 %	9.93 %	16.04 %	14.02 %	0.93 %	30.73 %	99.99 % 2/	
Wtd. \$/ATM, N-Fuel	\$0.105365	\$0.013664	\$0.000820	\$0.002422	\$0.048866	\$0.079437	\$0.066742	\$0.007258	\$0.094453	\$0.419027	
Wtd. \$/ATM, Fuel, Per	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	
App. C, P. 2 of 2	\$0.062538	\$0.006771	\$0.000000	\$0.000428	\$0.068974	\$0.054854	\$0.033758	\$0.000000	\$0.000000	\$0.227323	
Fuel + Non-Fuel	\$0.167903	\$0.020435	\$0.000820	\$0.002850	\$0.117640 3/	\$0.134291	\$0.100500	\$0.007258 3/	\$0.094453 3/	\$0.646350	
	TERMINAL COSTS										
	Alaska (AS)				NAC		ACE				
#6900					\$10,520,190		\$5,355,590				
System Tons Enpl.					39,339		23,245				
Intra-AK Skd. Svc. \$				\$52,702,357		\$8,747,169		\$5,064,137		\$66,513,663 1/	
Intra-AK Skd. Svc. Tons				157,690		32,709		21,980 4/		212,379 1/	
\$/Ton Enplaned				\$334.21		\$267.42		\$230.40		\$313.18 1/	
AK Mail Tons Enplaned				18,753		14,355		15,018		48,126	
Mail Tons % of Total				38.97 %		29.83 %		31.21 %		100.01 % 2/	
Wtd. \$/Ton Enplaned				\$130.24		\$79.77		\$71.91		\$281.92	

- 1/ These totals are not used to calculate the rate, but are shown for comparative purposes only.
2/ Due to rounding is not equal to 100 %.
3/ These aircraft types reflect zero fuel cost because fuel is per Order 01-6-10, based on QE 3/31/01, when those aircraft types had not yet been added.
4/ ACE had a small amount of bush service. We allocated terminal expenses between mainline and bush on the basis of tons enplaned by aircraft type.

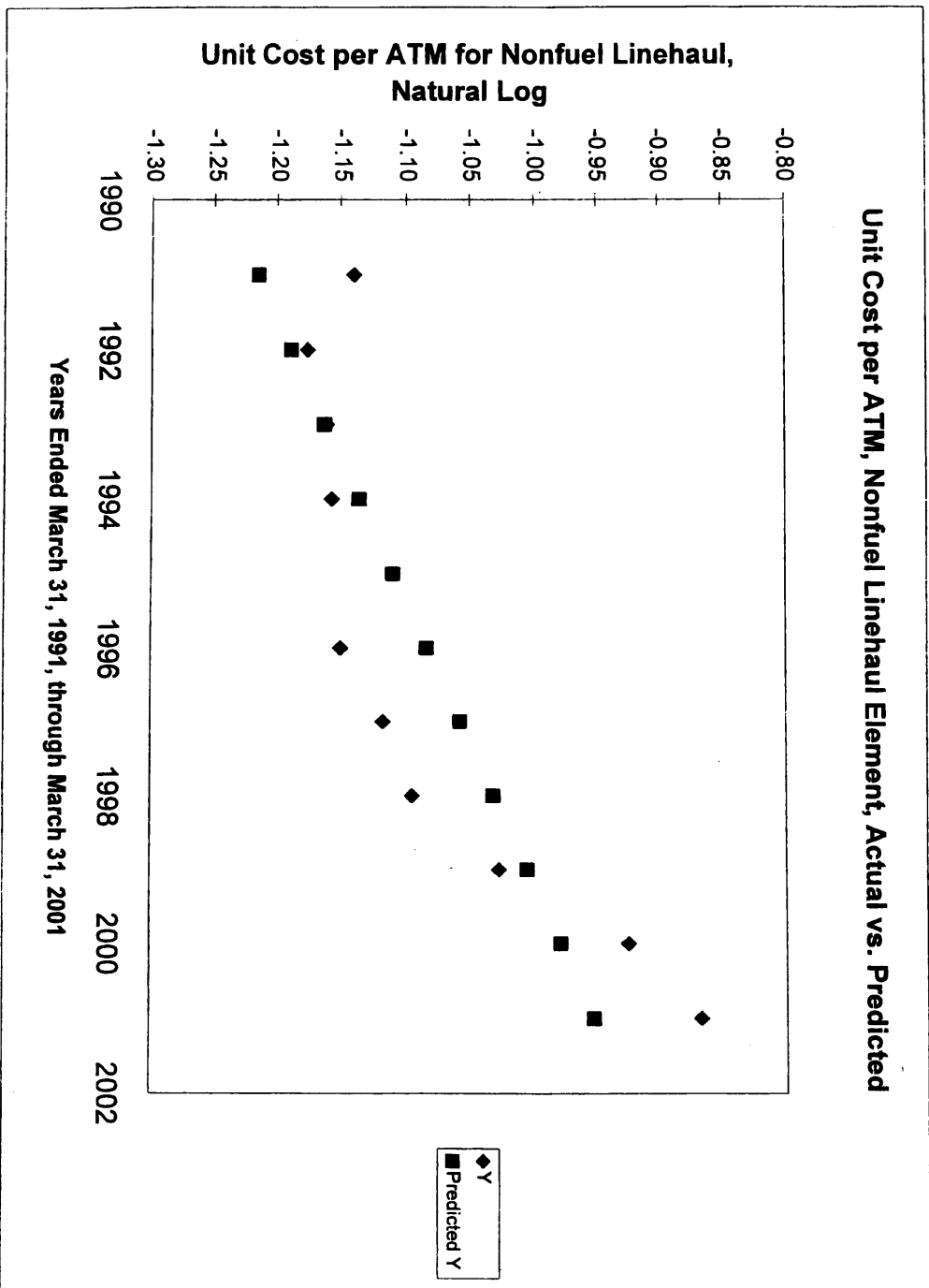
Per Order 2001-6-10
Fuel Expenses, Alaska Airlines, Northern Air Cargo, Tatonduk, and Lynden Air Cargo
Quarter Ended March 31, 2001--For Illustrative Purposes 2/

	Alaska Airlines (AS)				Northern Air Cargo (NAC)				Lynden (LAC)	1/	Tatonduk (ACE)		
	#621	#617	#612	#655	#711	#216			#356		#150	#218	Total
	B-737-2C	737-400	737-700	MD-80	B-727	DC-6			Hercules		C-46	DC-6	
Domestic Fuel	\$4,593,524	\$24,509,971		\$21,526,334	\$1,478,277	\$1,153,165			\$716,145				
Intra-AK Skd. B Hrs.	4,179	2,234		213	623	1,233			408				
Domestic Total	5,259	36,556		27,094	750	1,441			731				
Intra-AK Fuel	\$3,650,188	\$1,497,846		\$169,230	\$1,227,955	\$986,712			\$399,709				\$7,931,640 2/
Intra-AK Skd. ATMs	19,623,086	10,485,675		948,875	4,092,950	3,117,340			2,494,760				40,762,686 2/
\$/ATM, Fuel	\$,186015	\$,142847		\$,178348	\$,300017	\$,316524			\$,160219				\$,194581 2/
Intra-AK Mail RTMs	1,433,174	202,166		10,325	980,113	738,570			898,081				4,262,429
RTM % of Total	33.62%	4.74%		0.24%	22.99%	17.33%			21.07%				99.99%
Wtd. \$/ATM, Fuel	\$0.062538	\$0.006771	3/	\$0.000428	\$0.068974	\$0.054854			\$0.033758	3/	3/		\$0.227323

1/ Lynden's system operations outside of Alaska included operations for which no fuel expense was incurred, because the entity chartering the aircraft paid for the fuel. In addition, substantially reduced fuel prices were incurred for Lynden's Air Mobility Command operations. We have accordingly backed out both the fuel expense and associated hours from system traffic and expense totals to calculate adjusted system hours and adjusted system fuel expense, which are more representative of intra-Alaska operations.

2/ The final rate effective October 1, 2001, will be based on non-fuel expenses for YE 3/31/2001, and with the prospective quarterly fuel update, on QE 6/30/2001. The illustrative fuel costs reflect those for the QE 3/31/2001.

3/ Data was not included in most recent quarterly fuel update. It is anticipated that these costs for QE 6/30/01 will be included in the final annual update order.



Calculation of the Terminal Portion of the 10-Year Trend

Appendix D
Page 3 of 4

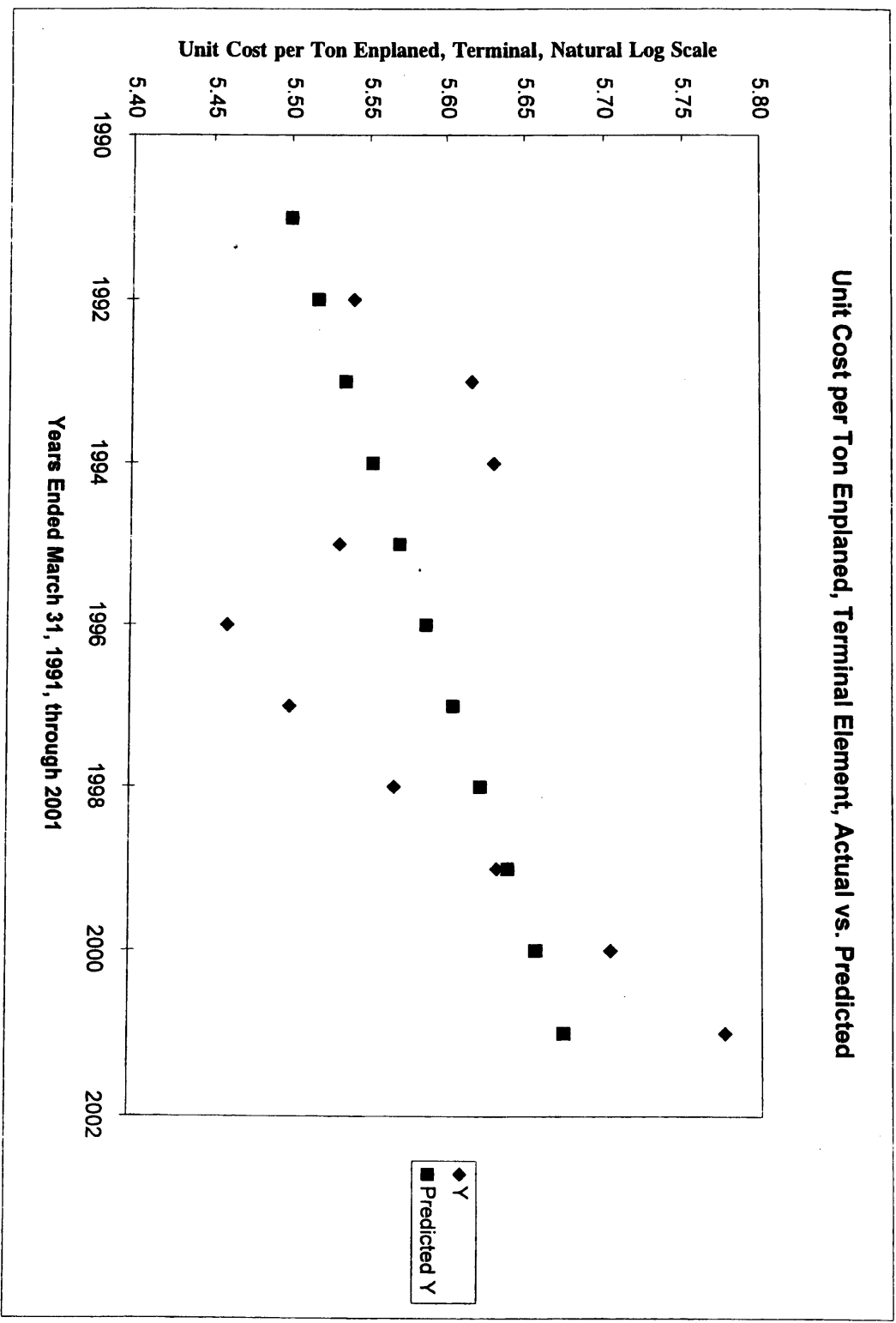
YE 3/31	Number	Terminal	Terminal	Predicted Y	Residuals	EXP(X)	Annual Increase 1.77% 7/	Regression Statistics
1991	93-2-26	\$244.68	5.499951	5.4995437	0.000407536	\$244.580304		Multiple R 0.6080345
1992	94-12-25	\$254.70	5.540086	5.517105	0.022981411	\$248.913382		R Square 0.3697059
1993	95-6-17	\$275.00	5.616771	5.5346662	0.082104853	\$253.323225		Adj. R Square 0.2996733
1994	95-8-8	\$278.97	5.631104	5.5522275	0.078876732	\$257.811196		Std. Error 0.0801631
1995	96-7-8	\$252.48	5.531332	5.5697888	-0.038456753	\$262.378677		Observations 11
1996	97-6-27	\$235.13	5.460139	5.5873501	-0.127211511	\$267.027077		
1997	97-6-27	\$244.69	5.499992	5.6049113	-0.104919234	\$271.757829		
1998	98-7-3	\$261.63	5.566931	5.6224726	-0.05541318	\$276.572394		
1999	99-7-16	\$279.55	5.633181	5.6400339	-0.006852716	\$281.472255		
2000	00-11-9	\$300.22	5.704516	5.6575952	0.046920383	\$286.458925		
2001	App. E	\$322.74	5.776847	5.6751564	0.101690616	\$291.533939		
	1/	2/	3/	4/	5/	6/		

ANOVA

	df	SS	MS	F	Significance F
Regression	1	0.0339238	0.0339238	5.2790496	0.047182908
Residual	9	0.0578351	0.0064261		
Total	10	0.0917589			

	Coefficient	Std. Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-29.464951	15.255948	-1.9313746	0.0854839	-63.97633024	5.046428004
X Variable	0.0175613	0.0076433	2.2976182	0.0471829	0.000271025	0.034851522

- 1/ Order number from which data is drawn.
- 2/ Terminal expense per the orders and Appendix C of this order.
- 3/ The natural log of the preceding column.
- 4/ The Y value, in natural log form, produced by the regression.
- 5/ The difference between predicted and actual, in the two preceding columns.
- 6/ The predicted Y value in the preceding column, converted back from natural log form.
- 7/ From the preceding column, any lower value divided by the above value.



Operating Expenses, Alaska Airlines and Northern Air Cargo
Intra-Alaska Class Service Mail Rates--Year Ended March 31, 2000

	Alaska Airlines (AS)				Northern Air Cargo (NAC)		Alaska and NAC Total
	#621. B-737-2C	#617. 737-400	#612. 737-700	#635. MD-80	#711. B-727	#216. DC-6	
	LINEHAUL COSTS						
Domestic Non-Fuel Linehaul	\$49,471,693	\$261,783,171	\$55,092,604	\$234,894,781	\$6,626,225	\$10,224,386	
Intra-Alaska Skd. Block Hours	17,667	9,424	1,117	1,436	1,845	7,171	
Domestic Total	23,060	157,490	48,063	133,323	2,009	8,046	
Intra-Alaska Non-Fuel Linehaul Expense	\$37,901,839	\$15,664,770	\$1,280,370	\$2,530,013	\$6,085,309	\$9,112,487	\$72,574,788
Intra-Alaska Skd. Available Ton-Miles	83,994,073	46,431,559	4,681,682	6,686,227	12,365,928	18,400,106	172,559,575
Unit Cost per ATM, Non-Fuel Linehaul	\$,451244	\$,337373	\$,273485	\$,378392	\$,492103	\$,495241	\$0.420578

TERMINAL COSTS

	Alaska (AS)	NAC	Alaska and NAC Total
A/C & Traffic Svc., #6900		\$10,520,190	
System Tons Enplaned		39,339	
Intra-Alaska Skd. Svc., Expenses	\$52,702,357	\$8,747,169	\$61,449,526
Intra-Alaska Skd. Svc., Tons Emp.	157,690	32,709	190,399
Unit Cost per Ton Enplaned	\$334.21	\$267.42	\$322.74